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...itizen's Course in

...REEDOM vs. COMMUNISM:
...e Economics of Survival

...IG ...CONOMIC CHALLENGE

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CHAMBER OF COMMERCE OF THE UNITED STATES
Washington, D.C.

"Old Russia was among the economically underdeveloped countries, whereas the Soviet Union has now outstripped all the developed capitalist countries and is already closely approaching, is about to touch the heels of the very leader of the capitalist world, the U. S."

—KHRUSHCHEV

". . . it reminds me of the tiger hunter who has picked a place on the wall to hang the tiger's skin long before he has caught the tiger. . . .
Premier Khrushchev states that the Soviet Union is only 44 years old, but his country is far older. . . . It is an interesting fact that in 1913 . . . the Russian gross national product was 46% of the United States gross national product. . . . In 1959 it was 47%. . . . While the Soviet Union was . . . improving the material standards of her people in the ensuing years, so was the 'tired-out runner' and on a per capita basis, the Soviet product in 1959 was only 39% of ours."

—PRESIDENT KENNEDY

Meeting the Economic Challenge

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Meeting the Economic Challenge

TWO DIVERGENT VIEWS crop up in discussions of Soviet aggression.

One view is that the Soviet Union makes its moves from a position of great strength.

The other is that Soviet belligerence masks disconcerting weaknesses.

When the Soviet Union poured troops and tanks into East Germany in 1953 to put down a popular revolt and again in 1961 to seal off East Germany's borders, both strengths and weaknesses were dramatically revealed.

The moves demonstrated the armed strength of the Soviet Union which everyone knew the Communists possessed.

They also demonstrated that the Communistic totalitarian system must rely on the bayonet.

The Russian people were told in 1961 the border closing was necessary to keep out "spies and provocateurs" from the West. The rest of the world knew that these moves resulted from the utter failure of the Communist system to build loyalties or to develop a healthy economy in the East Germany satellite state.

The striking contrasts between life in East Germany and West Germany were clearly evident in the "showcase" of Berlin. Before the Communists threw up the barbed wire barricades in 1961, three to four million people had "voted with their feet" by fleeing from East Berlin to the freedom of the West. The exodus was jeopardizing the entire East German economy.

The account of three of these people who fled East Germany, as reported in the *U. S. News and World Report,* is revealing.

A 26-year-old machinist who escaped with his wife and infant son said:

> I got tired of "volunteering." In order to get a decent job, I had to "volunteer" to do two years in the People's Police.

> Afterward I worked in a printing shop. There I was always being told to "volunteer" for something or other—to take more military training in the plant's "battle group," to join the Communist Party, or go out in the fields on weekends and work without pay. The only way I could get an apartment was by "volunteering" to work 800 hours without pay on a housing project. Then I would have had to wait at least two years to get the apartment.

Another young man who brought his wife and child along told this story:

> The police started coming around and asking all sorts of questions about a neighbor woman. My wife and I were worried because we had helped her get out to West Germany and that is now a prison offense.
>
> Then, too, my father-in-law's electrical business was about to be taken over by the Government. There just didn't seem to be any future in staying.

A young bachelor related:

> I had to come because I was in great trouble. Over there they always say they have no military draft, that they have an army of volunteers. Well, I didn't volunteer. But at the plant where I worked, I was told I had been "delegated" to join the Army. I refused and right away I lost my job.
> I took my case to a labor court. There the judges said I obviously was lying because it was well known that the Army was all-volunteer, and that any pressure to join was impossible.
>
> Then the judges said my lies constituted an insult to the state and I must be tried for this crime. Before they could try me I left.[1]

On top of the restiveness of the 100,000,000 inhabitants of captive satellites who are held down by the Soviet military, other problems confront the Communist leaders.

Next door to the vast open space of Russia are some 600 million Chinese—many hungry, weary and care-worn. Food has been short throughout most of the Communist empire. The Communist attempt to force farmers into a collective mold has been far from successful.

Ironically, it is in modern Russia and in China that one can find a good approximation to Marx's inaccurate description of capitalism.

The very evils that Marx ascribed to capitalism have materialized in the Soviet Union and in China as the result of the Communist Party's search for the maintenance and extension of power.

In Communist areas, as Dr. Walt Rostow has pointed out, "wages are held as near the iron minimum as the need for incentives permits; profits are ploughed back into investment and military outlays on a large scale and the system is so structured that it would be fundamentally endangered if the vast capacity that results were to be turned wholeheartedly to the task of raising real wages." [2]

The Communistic system has proved it can promote industrial production by channeling resources into investment and heavy industry. *This production has been attained at terrific human cost.* Translating production into major human well-being has neither been achieved nor attempted.

Despite the glowing promises of Khrushchev, many experts believe that the system itself compels a continual postponement of a high scale of living.

Only as the people are continually whipped up against the "enemies" from without can necessary repressive measures be maintained.

"Communism," says Dr. Rostow, "is a curious form of modern society appropriate only to the supply side of the growth problem . . . it can drive a society from take-off to industrial maturity—as Stalin demonstrated—once its controls are clamped upon society. But in its essence Communism is likely to wither away in the age of high mass consumption; and this, almost certainly is well understood in Moscow." [3]

We do not know whether the Russians can change their system to meet human needs, or whether they really want to do so.

Most experts agree, however, that the Soviet Union in the foreseeable future will continue to give priority to (1) developing military strength; (2) promoting heavy industry; (3) giving economic aid to underdeveloped countries in order to tie them to the Soviet Union; and (4) providing a minimal increase in consumer goods.

The Soviet Economic Offensive

THE CHALLENGE OF the Communists is sometimes presented narrowly in terms of a trade war.

At present Soviet foreign trade is small in relation to its Gross National Product—perhaps 3 percent.

But like all activities of the Soviet Union, foreign trade is tied in closely with achievement of political objectives. In waging trade war, the Soviet Union has used three principal techniques: (1) "dumping," (2) bulk purchase of commodities, and (3) the granting of financial and technical assistance to countries that can be tied into the Communist system.

By "dumping" is meant the sale of goods at prices which are below the market. Such sales are uneconomic, but they are disruptive in world markets and can sometimes be used to good advantage by a totalitarian regime.

The Soviet government has purchased large quantities of goods from countries with which it wishes to build stronger ties; for example, cotton from Egypt and rice from Burma.

Economic credit and grants have also been extended to underdeveloped countries, although the size of this effort is considerably smaller than the foreign aid program of the United States.

An effective response to this trade challenge as well as to the broader economic challenge of Communism requires a strong, dynamic American economy.

In his 1961 Economic Report, former President Eisenhower said:

> We can discharge our international obligations most effectively if we achieve sound as well as rapid economic growth. This means that public and private efforts to speed the expansion of our national product should avoid inflation, aim at solution of our balance of payments difficulties, maintain world confidence in the value of the dollar, and strengthen our competitive position in world markets. We may expect our allies to play a major role in the common defense and in the expansion of the world economy, but the principal burden of leadership in the quest for peace with justice will still be ours. To carry this burden, we must be prepared to follow policies, private and public, that will keep our economy strong and vigorous.

Americans can take justifiable pride in their economy. "As we work for a better future," Dr. Arthur F. Burns, former Chairman of the Council of Economic Advisers, has cautioned, "let us not exaggerate the shortcomings of our economy or belittle the achievements of the past."

Post-war America has grown. Employment has been high. The swings of the business cycle have been blunted.

It is no sign of weakness to consider how we can do better.

Three areas are of special interest to the American people. They are: unemployment, inflation, and future growth.

In this pamphlet we will consider each of these problems.

What causes unemployment? What are the sources of inflation? What do we mean by growth and how can it be achieved? What can we do as individuals to reduce unemployment and inflation and promote steady growth? What can business do? What can, and should, government do?

The Problem of Unemployment

MORE AMERICANS ARE working than ever before. *(See Figure 1)* They are earning higher *real* incomes.

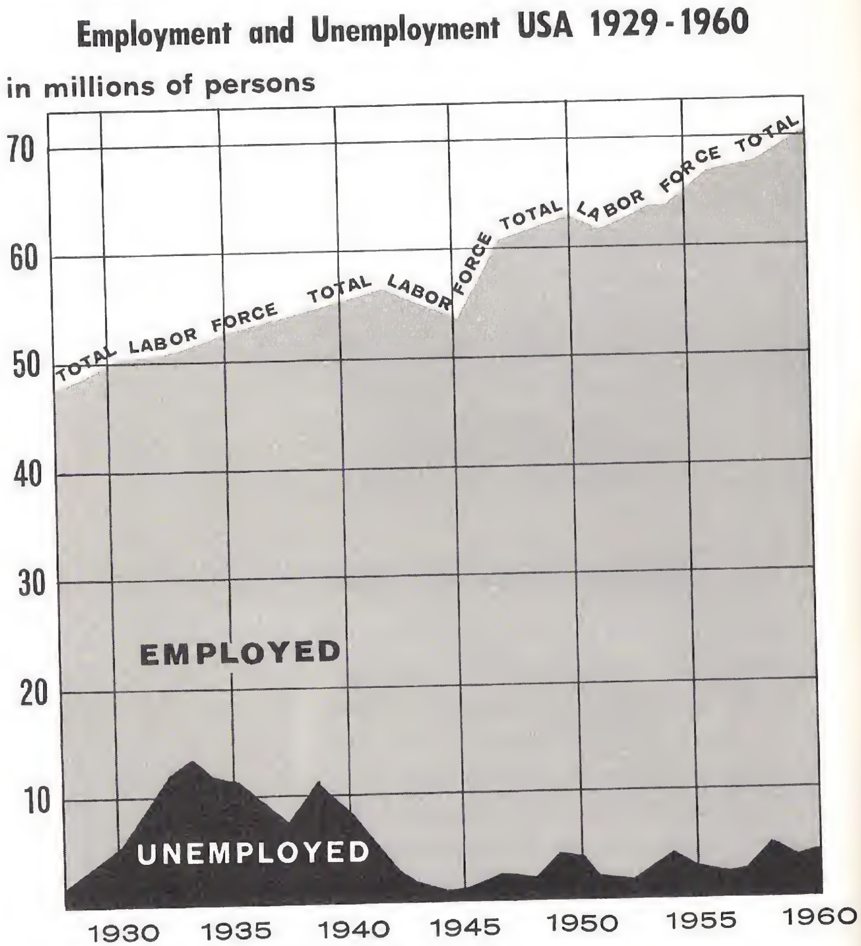
At the same time, we are all concerned about the nagging problem of unemployment. Communists seize every opportunity in their propaganda campaigns to magnify the problem of unemployment in the United States.

Even if there were no Communist challenge, we would be concerned. Unemployment imposes suffering on people it affects. High unemployment inflicts economic losses.

For many years unemployment was largely a personal or family problem. Today it is partly a community problem. We recognize that victims of unemployment may bear the brunt of general economic changes over which they have little or no control. In our modern society, many of the victims of unemployment would not be able to survive without community assistance—charity, social security, relief, and so on. Unemployment not only represents a community cost, but a great waste of potentially productive manpower.

Jobs and income result from production—the production of

FIGURE 1



SOURCE: Economic Report of the President, 1961.

goods and services that can be sold in the market. The total demand for these goods and services varies with the season, business cycles, and long-range changes in the pattern and structure of industry. Thus, the demand for labor to produce goods and services is always changing.

The supply of labor changes, too. The over-all supply increases with the growth in population. In a free system people

can enter or leave the labor market; the skills of those who remain alter with experience and education.

We speak of *the* labor market, but many labor markets exist. The market for electronic engineers is different from the market for unskilled workers. We have a shortage of electronic engineers, but an oversupply of unskilled and uneducated job seekers.

The Employment Act of 1946 established the principle that unemployment is a national problem and directed the National government to promote "maximum employment, production and purchasing power."

Few people would agree on the meaning of "maximum employment." In a free economy people constantly move in and out of the "labor market"—a term used by the United States Department of Labor.

Students move into the labor market in the spring and out of the labor market when they go back to school. Wives may leave the labor market when their children are young and return when the children are older. Senior citizens who have retirement income may work if jobs are plentiful, but stop working when jobs are scarce.

Even defining those who are unemployed is difficult. In 1957 it was decided to include among the unemployed some persons who had formerly been classified as employed. Primarily, these were people waiting to report to new jobs or those waiting to be called back to jobs from which they had been laid off. This change in definition increased measured unemployment by more than 200,000 at the time the change was made.

Total unemployment figures are estimated by the Bureau of the Census from a comparatively small sampling of the population. Inevitably, the estimates are controversial. Some people say they are too low; others, too high.

Regardless of our view on the accuracy of the estimates, we can be concerned, however, with the broad subject of unemployment—its types, its causes, and effective measures for dealing with it.

The Major Types of Unemployment

ECONOMISTS HAVE classified unemployment, on the basis of the causes of the unemployment, into four types—frictional, seasonal, structural and cyclical.

A closer look at each of these types of unemployment can help us decide what action to deal with them is necessary or desirable. The problems created by unemployment of each type are related, but different countermeasures may be required.

Frictional Unemployment

IN ANY FREE SOCIETY some people will always be changing jobs. One business stops; another starts. A man gets angry at the boss, or the boss gets angry at him. Even if the number of workers and the number of available jobs in a town are roughly of the same size, there will be some unemployment as workers move from one job to another.

The ability of workers to move from one job to another—called labor mobility—is an *essential freedom.* Millions of citizens, for example, apparently prefer to work for short periods of time and they voluntarily enter and withdraw from the labor force—some of them several times a year.

Moreover, our dynamic, expanding economy profits from our exercise of freedom to change jobs. It helps us meet shifting production priorities and adapt to changing methods of production.

From a strictly over-all economic view the economic costs of frictional unemployment are offset to some degree by the fact that it may result in the shifting of workers from declining businesses to expanding businesses, and from lower to higher paying jobs.

All frictional unemployment cannot be eliminated in a complex economy, since it is the inevitable result of freedom and "friction" created by a mechanism with millions of interrelated parts.

Nor can anyone be sure what normal frictional unemployment should be. In good times, the bulk of our unemployment may be classified as frictional.

REMEDIES: Frictional unemployment can be minimized by improving the organization of our labor markets so that the supply of workers adjusts more smoothly to the demand for their services. Programs that result in greater labor mobility and flexibility and in improved methods for bringing men and jobs together can be useful.

Employment offices—private and public—play a key role. By cooperating closely with employers and job seekers, they can provide unemployed workers with information, guidance, and perhaps other assistance that will help them move more easily from one industry to another, or from one area to another.

Like any involuntary joblessness, frictional unemployment has serious economic and social costs. Our system of unemployment compensation is designed to share the burden of frictional unemployment.

By placing taxes on employer's payrolls, the system prevents the jobless and their families from bearing the whole burden. Unemployment compensation, of course, is also designed to ease burdens of other types of unemployment.

Structural Unemployment

STRUCTURAL UNEMPLOYMENT results from changes in the structure of the economy.

The most familiar type of structural unemployment is what is popularly called technological unemployment: Workers are displaced by mechanization or, in some cases, by automation.

But the demand for manpower may also be reduced because of a decline in the demand for a product or failure of demand to grow. Thus, a shift in demand from coal to oil and gas has contributed to unemployment in the coal mines; a shift in consumer demand from standard to compact cars has reduced the demand for steel and other materials as well as the labor requirements per car.

In more general terms, the demand for technical, managerial, and professional labor has been growing rapidly; the demand for unskilled labor has been declining. Thus, there is a shortage of many kinds of highly trained labor, and a strong upward pressure on their wages; there is a surplus of

unskilled and semi-skilled labor, with high unemployment rates.

In February 1961, for example, the unemployment rate for unskilled labor was 19.3 percent, but for professional and technical workers, it was only 2 percent.

In the long run, society benefits from the introduction of improved and more efficient ways of producing goods and services. Old jobs are destroyed—but new ones are created. The technological progress directly generates demand for new kinds of workers—engineers, technicians, machine specialists, clerical workers, etc. Indirectly, it stimulates the demand for workers who help meet the demands for new services associated with a higher scale of living.

Unfortunately, technological progress may also hurt individual displaced workers who cannot—or will not—readily adjust to changes in the labor market. Especially affected are new workers who lack the training, education, mobility or flexibility required to handle new and complex jobs.

Remedies: Prescriptions for curing structural unemployment should be based on an accurate diagnosis of the specific unemployment problems and their economic setting. If the principal cause of the unemployment is lack of marketable skills, the most effective solution may be selective retraining.

In our free society part of the responsibility for dealing with structural unemployment rests with individuals—particularly younger workers and those who expect to enter the labor market within the next few years.

The ability to learn complicated tasks is becoming more and more important. "Drop-outs" from basic education are becoming less employable. Those with special skills who look ahead to future opportunities suffer least from structural unemployment.

Dr. Walter W. Heller, Chairman of the Council of Economic Advisers, has pointed out:

> Russia's sensational advances in science, highlighted by its successes in space exploration, have brought education's contributions to economic and military strength to the forefront of our national thinking.

> But our national shortage of developed brain power was only underscored, not created, by the need to match Soviet advances.
>
> This shortage is basically a product of our "explosive rate of technological change and the increasing complexity of our social organization. Not only are the tasks that must be performed to keep our society functioning ever more intricate and demanding, they are constantly changing in character. As a result, we are experiencing a great variety of shortages of human resources in fields requiring high competence and extended training."
>
> The impact of technological changes on our past and future manpower needs can be clearly seen. . . . Professional and technical workers rose from 4.3 percent of the labor force in 1900 to 8.6 percent in 1950 and are projected to increase to 14 percent in 1975. Corresponding reductions are taking place in the needs for less highly trained personnel.

Seasonal Unemployment

The demand and supply of labor vary with the seasons. More agricultural workers are required at planting or harvest time than are necessary during the growing season. Just before Christmas the demands for retail clerks and postal workers rise sharply. Fortunately, the supply of workers rises at the same time, largely because students and others are available.

Many versatile and mobile workers can switch from one seasonal job to another with ease. But many other workers undergo real hardships because of seasonal unemployment.

Some businessmen and farmers are able to reduce seasonal unemployment by careful annual planning and by diversifying their production. But the main attack on seasonal unemployment must be made indirectly by reducing other types of unemployment.

Cyclical Unemployment

Cyclical unemployment is the result of the operations of the business cycle, the upswings and the downswings in the economy as a whole.

Our present economy is more shock-resistant than our prewar economy. Since the Great Depression some effective shock absorbers, such as our unemployment compensation program,

have been built into the economy and we have learned something about coordinating government policies.

During the 1930s unemployment ranged between 14 and 25 percent of the labor force in spite of strenuous efforts—public and private—to bolster the economy. The bulk of this unemployment could be classified as cyclical unemployment.

It has been estimated that only about one-sixth of all postwar unemployment was *cyclical*—resulting from a downswing in the economy.

In a depression the lack of demand for goods is recognized as a cause of unemployment. Cyclical unemployment, therefore, is sometimes called *lack-of-demand unemployment.*

Since the level of employment is tied to national income and the flow of spending, efforts can be made to increase investment or consumer spending, or both, to combat the business cycle.

In a recession when prices and profits are falling neither increased spending nor investment, unfortunately, will look promising to many investors, businessmen, and consumers. Consumers will postpone some of their spending if they expect lower prices.

Nevertheless, there are ways to stimulate investment and consumption when unemployment is high, due to a drop in consumer demand.

Business Policies for Stability

BUSINESS CAN TAKE a variety of steps to help ease economic fluctuations.

During slumps, for example, business can build sales (thus resisting cutbacks in production and distribution) by strengthening advertising and selling programs as well as by making changes in products to meet changes in consumer demand. Introduction of new products at attractive prices may help.

Expanded research on new products and markets can aid both business and the entire economy in helping prevent production cutbacks and unemployment. Intensive promotion of products in new domestic markets and foreign markets can also promote stability.

It is in the interest of business firms and investors, as well as in the general interest, that they concentrate less on expansion during boom times and more on investment when costs decline during slumps. Long-run investment projects, perhaps, can be made on a long-term basis rather than on the basis of short-run trends. In other words, decisions on the purchase of plant or equipment to be used for many years can be evaluated in light of the expected long-time growth of the business and the national economy, rather than on estimates that business will be good—or bad—during the next few months.

Changes in business purchases of supplies and materials have far-reaching effects on short-run economic conditions. Greater caution in accumulating additional inventories when business is good—particularly avoiding undue speculative increases—can go far in smoothing the effects of inventory changes on the economy.

Governmental Policies for Stability

GOVERNMENT'S MONETARY policies (regulation of the money supply) and fiscal policies (spending, taxing and debt management) have far-reaching effects on the economy. Improvements in business management to help minimize cyclical changes make sense to the business executive, of course, only when he has some assurance that recession (or inflation) will be met by appropriate governmental monetary and fiscal measures.

In other words, the ability of businessmen and investors to cope with short-run fluctuations in the economy is materially affected by their confidence that governmental fiscal and monetary policies are working toward long-run stability.

Monetary and fiscal policies play such an important role in our economic stability that we should review briefly the meaning of these two terms before discussing specific problems.

Monetary Policy: "Leaning Against the Prevailing Wind"

MONETARY POLICY IS the regulation of the money supply (including credit) by the government. Money includes both currency and demand deposits (checking accounts) at commercial banks. The reserves of commercial banks are the basis for

the expansion or contraction of their loans and investment which create or reduce demand deposits. Monetary policy is carried out mainly by the Federal Reserve Board by controlling or influencing the reserve position of commercial banks.

Determination of monetary policy involves one basic question: *How much money should the banking system be encouraged to create?*

In turn, the question of how much money should be created is important only as the decision affects *spending, production, employment* and *prices.* Should monetary policy at a given time restrain or stimulate economic activity?

It is easy to see why we want to stimulate economic activity in some periods. It may not be as easy to understand why it should ever be restrained. Experience has shown, however, that the seeds of recession and depression are always sown in the previous period—usually a boom and inflationary period.

The principle of general monetary control is fairly simple although its actual operation is complex.

Essentially, when the Federal Reserve Board acts to reduce the supply of commercial bank reserves, borrowing becomes more difficult and interest rates go higher. With less credit available, the flow of spending may decline, or at least be dampened. The decline in spending, in turn, checks production and price excesses.

Easing the supply of bank reserves has the opposite effect on credit. Spending may expand, along with production, income and employment.

In addition to affecting the cost and availability of credit, changes in monetary policy have other less direct effects on spending.

A change in monetary policy, for example, may affect the attitudes and thinking of businessmen and consumers. The changed attitudes may affect investment expenditures by businessmen and purchases by consumers.

Moreover, cut-backs in areas such as state and local government construction, residential construction, and some types of business investment will reduce the flow of new orders to a

wide range of other businesses. Businessmen may cut back on orders and consumers become less willing to incur new indebtedness.

Conversely, credit expansion can bring wide-range expansion as a result of a change in the psychology of investors and consumers.

Most economists agree that monetary policy is more effective in controlling booms than in promoting recovery in a recession. In either case, monetary policy should be supported with appropriate fiscal policy or, at least, monetary and fiscal policy should not be working at cross purposes.

The primary objective of governmental monetary policy must be to provide over-all price stability, allowing individual prices to shift.

Under a "flexible" monetary policy the Federal Reserve Board "leans against the prevailing winds." If an excessive boom seems to be building up the "Fed" (as it is popularly called) moves to restrain the boom by tightening credit; if business is slowing down—or even threatening to slow down—credit is eased.

This flexible monetary policy has been important in moderating swings in the business cycle in recent years.

A flexible monetary policy seldom encounters public opposition in a recession. There are few objections to "easy money." But some objections to restraints on credit during a boom period are inevitable. No one likes to postpone spending plans because money is unavailable or interest on loans is high.

Yet, if all borrowing demands during boom periods are accommodated by the creation of new money, inflation is inevitable. In other words, if we want to avoid serious "busts" we must be willing to help restrain the booms that precede them from getting out of hand.

Fiscal Policy

THE FINANCIAL (fiscal) operations of government are so large that they materially affect production, employment, purchasing power and prices.

We saw in Pamphlet 6 (*The Big Picture*) how the goods

and services that make up the Gross National Product are purchased by (1) investors, by (2) consumers, and by (3) government. *The total demand of these three groups is called aggregate demand.*

A fundamental fiscal policy question is: Should the government directly manipulate the volume of its expenditures, or change its tax policies, in the light of prevailing or expected economic conditions, *so as to stabilize the aggregate demand for goods and services,* i.e., total investment plus total consumption.

In other words, if the aggregate demand drops because of a drop in private spending or investment, should the government try to compensate for this drop by spending more? By cutting taxes so that the people can spend more? Or should both plans be followed. Conversely, if an excessive boom appears to be building up, should the government raise taxes so that people would have less money to spend? Should the government spend less?

We will see later there are arguments on both sides of the controversial question of manipulating government spending and taxing policies to meet fluctuations in the economy. But both sides would agree, probably, that the government should try to conduct its fiscal affairs (spending, taxing and debt management) so that they are, at least, working in the right direction—toward satisfactory economic growth without inflation, excessive unemployment, or repressive direct controls on individuals.

Stabilizing Fiscal Action May be Automatic or Discretionary

Automatic "Shock Absorbers." Most economists would agree that the "shock absorbers" built into governmental budgets have become increasingly effective.

The main shock absorbers are income taxes and certain social insurance systems, such as unemployment compensation.

In a recession personal income falls. But income tax *rates* become smaller as total taxable income declines. Thus the proportion of income collected in taxes drops even more than

income. While the tax burden is thus becoming lighter, government spending for such programs as unemployment compensation is rising.

As a result, the decline in the income available for spending by the people as a whole is less than the decline in national income.

Conversely, as personal income rises during an economic upswing, tax yields increase at a higher rate, thus taking away more spending income. At the same time, governmental spending in such programs as unemployment compensation declines.

Fiscal shock absorbers cannot be expected to eliminate the business cycle. Carried too far, they can be hazardous. In any case, taxing and spending measures should not be judged solely on the basis of their stabilizing action. We also must consider how they affect economic freedom and progress.

Discretionary Fiscal Action

Views on fiscal actions that should be followed in dealing with a recession are varied. At the risk of over-simplification, they might be classed under two headings: (1) compensatory budgeting and (2) a balanced budget.

Compensatory Budgeting. Those who advocate some form of compensatory budgeting say the government should adjust its taxing and spending policies to counteract the business cycle. Within this broad framework are many different views. Essentially, the differences among them revolve around the measures that would be used to affect the "demand" for the nation's goods and services.

Some groups would place heaviest emphasis on deficit spending by government to increase total demand in a recession.

Other groups would cut taxes to stimulate private demand and not develop new government spending programs as recession strikes.

Still others would use a combination of tax cuts and deficit spending to raise demand.

Because deficit spending which expands the money supply and the national debt can lead to inflation, many advocates

of the compensatory budget say that provisions must also be made for working against inflationary spending in boom times. This can be accomplished through higher taxes, less spending, a surplus and a reduction of the national debt.

Annual Balanced Budget. Opposing compensatory budgeting are those who believe that government expenditures and revenues should be balanced under all conditions—except, perhaps, in periods of severe national emergency such as war. Such a policy would require either raising tax rates or cutting expenditures in a recession—although the extent of these changes depends largely on the over-all size of the budget. Advocates of ever-balanced budgets stress the importance of fiscal discipline and integrity to protect the dollar and promote business and consumer confidence.

Practical Considerations

In the Employment Act of 1946, the government committed its resources to the promotion of "maximum employment, production and purchasing power."

Experience shows that in recession there will be no lack of public pressures for more government spending. It is useful, therefore, to consider some of the practical problems that confront policy makers who wish to use such programs.

The Complexities of the Economy. The theory that government spending can easily compensate for a drop in private demand minimizes the real complexities of the economic system. The policy-maker is confronted with a host of problems as to how much and what kind of spending is necessary or desirable. There is a difference, for example, between "transfer payments" and the purchase of goods and services by government. Transfers which merely redistribute income from upper to lower groups might increase consumption at the expense of investment. This could stunt economic growth.

Some types of increased government spending might have little stimulating effect. For example, government spending for goods and services already in demand might merely bid up prices for these particular goods and services and thereby reduce private demand. No amount of Federal spending will correct certain kinds of internal maladjustments of a temporary or short-run nature, and such action could conceivably intensify temporary economic ailments and perpetuate mistakes and maladjustments.

The Problem of Forecasting. Although there has been steady improvement in economic forecasting, along with better statistics, the problem of guessing future developments will always be a hazard in manipulating government spending.

Timing and Time Lags. In our system of government Congress does not want to give up its authority to control expenditures. But the budget process takes many months—too long for prompt adjustment of spending to counteract changes in the private economy as they occur. Tied in with this question of the time lag in government is the question of time lag in our economic system. Consider, for example, what happens when the government spends $2 billion. As a result of the "multiplier" principle discussed in Pamphlet 6 (*The Big Picture*), it can be assumed that total demand will rise by more than $2 billion.

Under this theory, the increase in the volume of government spending creates new demand and new income. Those who receive the payments on the first round, in turn, spend some part of their income. Successive rounds of consumer spending will follow, each adding successively smaller amounts of demand and income until the impact of the initial increase in government spending has been completely absorbed by the system. In the end the new equilibrium level of demand and income is higher than it was before.

But this process takes time. Perhaps the stimulative effects will not be felt for some 15 to 18 months. By that time, the problem may be inflation—not deflation.

Summing Up: Some people believe that during periods of recession expansion of government expenditures, or reduction in tax rates, are both necessary and desirable.

Other people distrust any system of "compensatory" finance because they see it as a mechanism for ever expanding the scope of government under the appealing guise of "stabiliza-

tion." They charge that many of those who push for increased government spending during a recession also push for increased spending during boom times. They say that until there is more evidence of fiscal responsibility in government, direct manipulation of government spending to meet economic changes is dangerous. They see strictly balanced budgets year after year as the only realistic way of keeping government spending in bounds.

Importance of Stability and Growth

WE HAVE SEEN THAT unemployment can be traced to several causes and that dealing with these causes may require various countermeasures, including improved training and re-training of workers, an improved flow of information on job opportunities, increased labor mobility, and public and private policies that blunt the swings of the business cycle.

Dealing with unemployment problems is easier when the general economy is growing steadily and the value of the dollar is stable. Unemployment is therefore related to the subjects of growth and inflation that will be discussed next.

Before doing so, however, we should take a brief look at the employment situation in the Soviet Union.

"Disguised" Unemployment in the Soviet Union

GENERALLY, THE MANPOWER problem in the Soviet Union has been a shortage of workers. World War II left the Soviet Union with a shortage of some 20 million men. A lower-than-normal birth rate was also a direct consequence of the war.

The inefficient use of manpower is indicated by the fact that the larger population of the Soviet Union turns out less than half the amount of goods and services produced in the United States.

The growth in Soviet industrialization has been marked by comparatively low productivity. To achieve a sevenfold increase of industrial production between 1928 and 1956, the number of industrial production workers in Soviet industry was increased nearly fivefold. The United States, on the other hand, attained more than a sevenfold increase in the output of manufactured goods between 1935 and 1956 with less than a doubling of the number of production workers in manufacturing.[4]

William N. Turpin, an American economist specializing in Soviet and East European problems, has pointed out:

> Other evidence could be cited from Soviet publications to show that Soviet enterprises generally keep on their payrolls substantial numbers of non-productive workers—e.g., the employment of one inspector for every five workers in many plants—or are often obligated to use inordinate numbers of workers for certain tasks because of poor organization and lack of mechanization . . .
>
> This sort of "disguised unemployment" is even more striking in Soviet agriculture. Khrushchev himself has cited figures which, even though "adjusted," indicate that Soviet collective farms use 16 times the labor employed on American farms for equivalent output. Unadjusted, the ratio would be 20 to 25 times.

In fact, Mr. Turpin points out the problems of unemployment will increase in the Soviet Union. He says:

> The significance of all this is that, as the Soviet Union executes its declared intention to raise labor productivity through more efficient organization and improved technology, it may be hard put to find alternative employment for the workers displaced. The most modern techniques of producing those goods in which the Soviet authorities are most interested are, as a rule, techniques that require more capital and less labor per unit of output. Every advanced industrial society has, of course, experienced this problem of technological unemployment, but in the West it has presented itself in piecemeal, gradual fashion, usually affecting one industrial sector at a time and thus making the process of adjustment easier. What the Soviet Union faces today, however, is technological unemployment on an economy-wide scale . . .[5]

Even if the Soviet Union's industrial production is growing faster than most modern free economies, the gap between income per person in the Soviet Union and in free countries is no great credit to the Soviet system, if human well-being is a proper goal of an economic system.

For example, the average Russian working full time in a mill, shop or factory receives a little more than half as much money as a *jobless* American receives in unemployment insurance.

Whereas the average Russian worker received about $80 a month in 1959-60 at the rate of exchange then prevailing, the average unemployment compensation paid American jobless was about $34 a week, or something over $140 a month, according to the August 1961 *Social Security Bulletin*.

The Problem of Inflation

WHEN TOTAL DEMAND—total spending—is rising faster than actual production of goods and services, the general price level tends to rise and we have inflation.

At the beginning of the Korean War in 1950, for example, the sudden upsurge in spending by private consumers and investors set off an inflationary upswing. But, by and large, explosive inflationary situations occur only when the government behaves recklessly and permits an excessive increase in spending through the rapid creation of new money.

An increase in money and spending in comparison with the capacity of the economy to produce goods and services causes inflation. Both sides of the picture are summed up in the well known statement "too many dollars chasing too few goods."

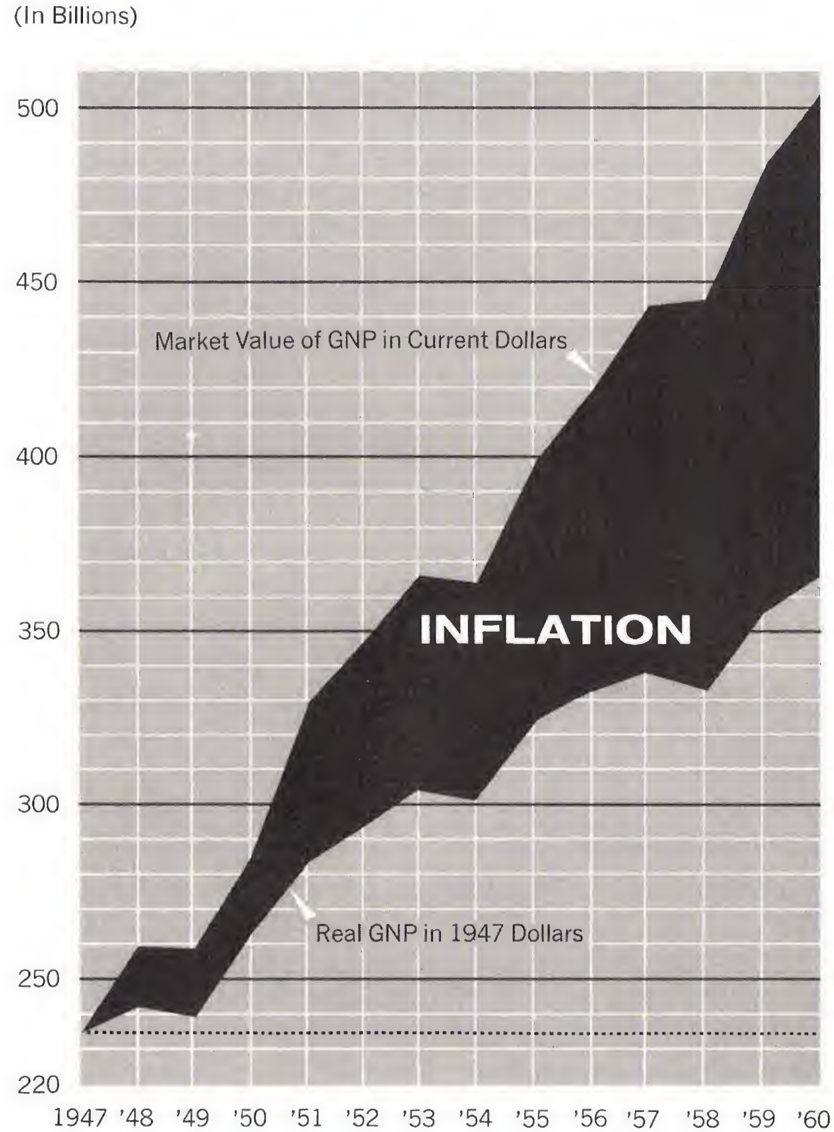
More recently, economists have also been talking of cost-push inflation. This view concentrates on the supply side, and emphasizes causes of inflation that may be more subtle than increases in demand.

Those who emphasize cost-push inflation hold that monopoly labor and business can raise costs and prices and feed the fires of inflation. They say that some business firms have the power to raise prices even if it means curtailing production. Unions, too, may have sufficient power to demand and obtain higher wages, which are larger than productivity increases and boost costs.

Increased costs may also be built into the price structure as a result of higher prices for imported raw materials, higher taxes, and so on. Government price supports of agricultural products or government stockpiling activities may also increase prices.

FIGURE 2

Inflation: 1947-1960 GNP in Current and 1947 Dollars



SOURCE: U. S. Department of Commerce.

In recent years, inflationary pressures have come from both the "pull" of demand and the "push" on costs.

Over the years, prices in the United States have risen steadily, although it is difficult to determine how much of this is due to inflation and how much is due to improvements in the quality of things we buy. An analysis of family budgets might well disclose that in normal years much of the apparent rise could be traced to better products—better food, cars, clothing and shelter, and improved schools and other governmental services. In other words, experts agree that the Consumer Price Index has overstated the rise in real prices.

Although postwar price increases (measured by the Consumer Price Index) have averaged 3.3 percent per year between 1945 and 1960, three-fourths of the entire increase occurred before 1953. Between the end of 1952 and the end of 1960, the Consumer Price Index rose at an average rate of 1.4 percent per year.

A major factor in the rise has been the increase in the cost of services which have risen at an average rate of nearly 3 percent per year. Prices of commodities included in the Index have risen only at an average rate of less than 1 percent per year. The prices of most durable goods actually fell slightly over the eight years.

The heavy inflation came following the war—between 1945 and 1951—when consumer prices rose about 5 percent a year, and wholesale prices, about 8 percent per year.

Fighting Inflation

SOME PEOPLE CAN adjust to inflation without serious loss. A few can even profit from it, but most of us are hurt by inflation.

Many things we do as individuals—such as rushing out to buy goods when prices are going up—may accelerate inflation. Fighting inflation effectively calls for intelligent and responsible action by all groups.

Dr. Beryl W. Sprinkel, writing in the *Annals of the American Academy of Political and Social Science,* has emphasized one form of effective individual action:

> What can the intelligent citizen do to further the cause of price stability? Unfortunately, the basic causes of inflation are beyond the direct control of the individual. Admonitions to individuals to save more, buy more savings bonds, spend wisely, avoid excessive wage increases, join buyer's strikes, and so on, are destined for failure unless a stabilizing budget and flexible monetary policy are pursued . . .
>
> Within the limits established by custom and law, individuals should feel free to make spending and saving decisions based on their own personal needs rather than upon the impact their action may have on the economy.
>
> It is the responsibility of the Executive, Congress, and the Federal Reserve Board to follow policies which will restrain total spending during inflationary periods and hence provide assurance that free private choice will be consistent with the public good.
>
> But ultimately governmental authorities must be responsive to public opinion. It is the obligation of an intelligent citizen first to make sure his opinion is an informed one, and second to communicate his opinion to his elected representative.[6]

If it is the responsibility of the citizen to make sure his opinion is an informed one, let us look briefly at the effects of various monetary and fiscal policies on the problem of inflation.

In the preceding section on unemployment, monetary and fiscal policies were examined from the standpoint of curbing the business cycle. Emphasis there was on the downswing, which resulted in unemployment. Emphasis here is on curbing the upswing.

MONETARY POLICIES. Since inflation is caused mainly by "too many dollars chasing too few goods," inflation is fought by restraining the number of dollars—including the credit dollars—that are exerting the pressure. The Federal Reserve System has many tools for restraining spending. It can reduce the supply of loan funds of banks by raising reserve requirements and the discount rate. It can also restrict stock-market credit.

The degree of monetary restraint necessary, of course, depends on the extent of inflationary pressures.

Such actions are never politically popular, of course, which

is the major reason why the Federal Reserve Board was set up as an independent agency.

Fiscal Policy. Deficit spending — government spending more than it collects in taxes—permits the creation of new money and credit. If the government is to curb inflation, it must collect more than it spends and use the surplus to reduce the national debt. Without going into the mechanics of the process here, it is a fact that payment on the national debt serves to cut back the supply of credit and money and thereby retards excesses of consumption and investment.

Although credit restraint in boom times is not popular, our willingness as a people to understand it and to accept it is essential if we are to escape the ravages of inflation and, indeed, of deflation. For if we overdo economic activity and put strains on supply, subsequent contraction is inevitable.

Insofar as inflation stems from the "cost-push" side of the picture, all actions that promote greater flexibility in prices, wages and interest are important. This means effective competition in all markets—for labor, loans, machinery, raw materials as well as markets for consumers goods and services. Unfortunately, too many costs and prices have been flexible in the upward direction only. Thus, the whole price structure has been raised.

Inflation in the Soviet Union

The Russians claim that inflation is no problem.

They say the government regularly has a surplus budget and that official prices have declined rather than risen over the post-war years.

"Despite the budget surplus and stable prices, the evidence is overwhelming," says one observer, "that the U.S.S.R. is in a state of chronic inflation." [7]

The scarcity of consumer goods is a feature of the Communistic system in Russia. As long as this scarcity continues, there will either be inflationary pressures or bare shelves.

The amount of inflation in Russia is exceedingly difficult to measure because prices are set by the State and can be adjusted as necessary. The cost of a movie camera, for example,

might be 1600 rubles—twice the monthly pay of an average worker. Rents might be low. In other words, there is not the movement of prices generally that takes place in our economy under inflation.

But evidences of inflation are strong in the Soviet Union. Although no one knows the extent of the "black market," it is clear from Soviet sources that one exists. Newspapers have reported the arrest of "speculators" who sold automobiles, for example, at twice their listed price.

"The sellers' market for most goods is inflationary," says Dr. Floyd A. Bond, one of the few United States economists to visit Soviet planning headquarters. "And it does create a real problem. If prices are held below their equilibrium level in order to avoid inflation, then prices can no longer limit demand to available supplies. Those who come first get what's available, and those who come later go without.

"Maintaining a sellers' market is inflationary, and must result either in inflation or empty shelves or some combination of the two. The logic is inescapable. And its inflationary effect would be obvious if it were not for the strict control exercised by the Government." [8]

Similar conclusions were reported by Joseph E. Evans, of the *Wall Street Journal:*

> Observers see Soviet inflation . . . constantly chewing away at productivity gains and leading to hidden price increases as when lower quality goods are sold at prices originally set for higher quality ones. This . . . influence, they note, is serious enough by itself, even if inflation never reaches the runaway state.
>
> And they do not see a great deal the Soviets can do about it as long as this remains, by political decree, a scarcity consumer economy.[9]

The Problem of Growth

While we are concerned with sustained economic activity, we are also anxious to have economic growth.

Economic growth can be measured in many ways.

One measure is the Gross National Product—the final value of the total volume of goods and services produced in a nation.

Total production can go up merely as the result of a rising population. More workers will produce more goods and services. But if total production goes up only as fast as population, the average individual will not be any better off.

Another way of measuring growth, then, is in terms of *production per person*—per capita growth.

Or we can go one step further and measure production *per hour* worked.

It is this increase in production per manhour—productivity—which has enabled Americans to work fewer hours per week and at the same time enjoy a higher scale of living.

Between 1910 and 1953, for example, the number of manhours devoted to production in the private sector of the economy increased 35 percent—due to an increase in the size of the working force. With this increase of only 35 percent, total production went up nearly 240 percent!

The result was more goods and services for everyone—a higher scale of living

The post-war growth of the Soviet Union, measured in terms of its Gross National Product, has been substantial and widely publicized. A report by the staff of the Congressional Joint Economic Committee places the average annual increase in Soviet Gross National Product at about 7 percent a year between 1950 and 1955.

Because our starting place was so much higher, the rate of growth—measured in *percentage*—was lower in the United States than in the Soviet Union. But the United States, with its 4 percent annual rate of growth during this period actually led all countries in the *total amount of increase* between 1950 and 1955. The increase in Gross National Product, measured in terms of the 1956 dollar, was an average of almost $15 billion a year.

In 1961 President Kennedy placed the Russian Gross National Product at 47 percent of the United States. But, he pointed out, this was only one percentage point higher in comparison with the United States than the Russian national product in 1913—the last year under the Czar. The point is: Russia has grown, but the United States has grown, too.

Many experts expect that as the Soviet economy grows, the *rate* of growth will slacken although it will continue to grow.

Dr. Colin Clark of Great Britain, thinks that even a six percent growth rate per year in Russia is an "illusion."

He says:

> The illusion arose through examining the data—such as were available—for the period 1948-53, and expecting their movement to continue indefinitely. It should be a commonplace of economics . . . that when a country is recovering from war, invasion, and similar disasters, which have reduced its productivity to a low level, there will be a recovery period in which growth is rapid, followed by a period of gradual decelerating growth as productivity approaches that position . . . which it might have been expected to reach had the war not occurred.[10]

A primary reason for Soviet growth has been concentration of investment in heavy industry—which, in turn, promotes growth. Even if this policy of channeling resources into heavy industry at the expense of consumer goods should be continued, a larger proportion of production will be required in the future merely to replace plants and equipment that have depreciated.

The most accessible and easily developed natural resources have been utilized, and while natural resources are abundant in the Soviet Union, future utilization may require increasing amounts of capital equipment. As more of Russia's labor force is drawn out of agriculture into industry, the rate of growth of the industrial labor force will set some limits on its industrial expansion.

Possibly, most important, there will be less scope for borrowing the technology that has been developed over many years in the industrialized nations of the world.

The possible slowing of Soviet growth is not cause for complacency. As long as Russia continues to channel a large share of steel production into submarines rather than into washing machines and into missiles rather than into automobiles, her growth is of concern to us.

Sources of Growth

THE AMERICAN PEOPLE want maximum employment, price stability and growth. At the same time we want economic freedom and opportunity for individual development.

As we have seen throughout these pamphlets, a dynamic expanding economy rooted deep in individual freedom requires flexibility. Some fluctuations in output, prices, incomes and the level of employment are bound to occur. But if the severities of major disruptions are avoided and we have long-run full employment (at about 95% of the labor force) and maintain our historic rise in productivity, we can look forward to an even brighter future.

We cannot attempt to force continuous full prosperity on *every* industry, region, occupation, village, and farm without paying the price of a loss in freedom, efficiency and a fundamental change in our system.

But we can seek attainable goals. We can seek fairly steady over-all economic growth without having to endure the social wastes and suffering of mass unemployment on the one hand or the cruel penalties of persistent—or even periodic—inflation on the other.

As long as we do not set impossible standards in any of the three areas, all three goals—economic growth, low levels of unemployment, and reasonable price stability—can be achieved simultaneously.

In fact, our record has been amazing!

No economy can match the record of growth of the American economy over the last 120 years. If we want to continue to grow—to progress—in the future, we must start by looking at the sources of the growth that have made us the strongest nation in the world.

A staff report of the Joint Economic Committee points out:

> At the top of any list of factors contributing to the growth, four elements must be mentioned:
>
> The first is the opportunity for individuals to exercise their initiative to organize new enterprises, to effect changes in old established ways.

> Second, many Americans have possessed the enterprising, risk-taking attitudes which are the essential driving force of a capitalistic system.
>
> Third, the American people have a healthy attitude toward work which has resulted in a high and rising productivity for the labor force.
>
> Fourth, a stable political environment, with private property secure from government seizure without due process of law, has given individual initiative a setting in which it can function successfully.[11]

In other words, a political and economic system which permits the *individual* to exercise initiative, drive and responsibility lies at the heart of our material progress.

Dr. Henry Wriston has observed:

> For some years now, organization has seemed to mean more than individuals. The program of national defense has been so huge that stress has been on "team work." Even in science, group enterprises have seemed dominant ever since the Manhattan Project produced the atomic bomb. Industry has become huge and corporate; unions have developed in size, structure, and resources. Politics has seemed to depend more on organization than upon ideas.
>
> The moment is ripe to remind ourselves once again that ideas come from individuals, that progress stems from ideas. In the same way morals are the exclusive possession of individuals; phrases like group morality cloud the reality rather than helping to clarify it. Ideas are the combination of individual imagination, intelligence, and moral clarity. Leadership, if the word has any meaning at all, is a characteristic which adheres in individuals who have faith, energy and ability in unusual degree.
>
> There are many legitimate goals for the United States. None of them—literally none—is attainable without the intelligence, courage, and industry of individuals. The central goal, therefore, should be a renewal of faith in the infinite value and the unlimited possibilities of individual development.[12]

Producing Goods and Services People Want

GROWTH HAS been defined as "the expansion of a nation's capability to produce the goods and services its people want."

As we saw in Pamphlet 3 *(Profit Motive or Master Plan)*, the production process, essentially, is the combination of raw materials, manpower and capital equipment.

It follows, therefore, that *growth depends on the expansion or improvement of any or all these factors and on increasing the efficiency with which they are combined.*

Because men, raw materials and machines are the factors in growth, it can be promoted by increasing the labor force, by education and training, by adding to the stock of physical capital, by research and development activities which advance technology, by the discovery of new resources, and by improving the effectiveness with which all of these components are organized in productive effort. Higher productivity *per capita*, of course, depends on using resources more effectively.

Manpower. A substantial part of our total growth can be traced to the expansion of the labor force, which has grown at an average of 1.5 percent a year since 1890. Offsetting this increase to some extent has been the decrease in the total number of hours worked. With a reduction in the standard number of hours worked per day and the number of days worked per week has also come increased time off from work with more paid holidays and longer vacations.

Not only has the size of the labor force increased, it is a force of steadily rising quality, as a result of more education, improved skills, and better health.

In 1940, for example, about 40 percent of people over 25 years of age had received more than 9 years of schooling. By 1957, the number had risen to 52 percent. At the other end of the scale the number of people with less than five years of school had fallen from less than 14 percent to about 9 percent.

New entrants into the labor force are even better educated. More people are attending high school and the number of those attending college is increasing dramatically.

Along with the increase in education, there has been an increase in labor skills. The number of unskilled workers—some 36 percent of the labor force in 1910—dropped to about 20 percent by 1957.

The proportion of professional and technical workers, clerical and administrative workers has risen substantially, and is more easily absorbed in the labor market.

The improving health of the labor force with less time lost due to sickness, and a lower death rate have resulted in greater output.

Capital. As the American worker has become better educated and more skilled he has been able to produce more. But aiding him has been the capital—tools, machinery, buildings, power, transportation and equipment—with which he has been provided.

The total amount of capital in the United States economy has grown more rapidly than the labor force, or about 2.6 percent per year. The amount of capital per worker has been rising about 1 percent per year.

Capital is created by savings. Most individuals save part of their income. These savings, of course, can be made in the form of savings accounts or, indirectly, in the form of payments on insurance or house mortgages. In turn, business uses these savings to make investment in capital equipment in the hope of profits. In terms of production, some portion of our total production must be things that are used to produce more goods in the future instead of things to be used now.

Technological Progress. Under the pressure of competition, technological progress has resulted not only in a host of new products, but in a multitude of new techniques and ways of doing things. There is a relentless search for better plant layouts, more efficient machinery, and new processes. Progress not only comes as the result of formal research but also from millions of small cost-cutting innovations devised by individual workers and businessmen.

Our "know-how" which is the product of innovation-minded management and alert cooperative workers is a great weapon in the American arsenal.

Resources. Everyone recognizes that our country has been richly blessed with natural resources—fertile fields, timber, water, minerals.

The staff committee of the Joint Economic Committee reports:

In the coming years "resources are not likely to restrain growth in any general way . . ." according to a study paper . . . There will be specific resource problems and shortages of some raw materials, as demand shifts suddenly. Reliance on imports will probably increase. But over all, we can look ahead to continued benefit from the ample resource base with which this country was endowed.[13]

Promoting Economic Growth

IF WE UNDERSTAND THAT growth comes primarily from raw materials, manpower, and capital and the efficiency with which they are combined, all of us can think of ways in which we can help promote it.

Dr. Arthur F. Burns, former Chairman of the Council of Economic Advisers, has outlined some of the steps he thinks should be taken to make us more efficient and promote more per capita growth. You may not agree with all his proposals, but these excerpts from his program will serve, perhaps, to stimulate your thinking:

Basis for Prosperity. The prosperity of a nation depends basically on the energy and skill with which people apply themselves to production—in other words, on the amount of work that is done and the efficiency with which it is done. The government can sometimes influence the outcome favorably by doing more and spending more, but it can sometimes also do so by spending less. The success of governmental policies to spur our economic growth will depend primarily on how effective they are in increasing confidence in the economic future, thereby stimulating people to use their brains, energy, money, and credit in building today for a better tomorrow.

To achieve a higher rate of economic growth, we need to give no less attention to the reduction of governmental obstacles to growth than we give to the devising of new governmental stimuli to growth.

Tax Reform. Except for occasional and marginal adjustments, we have continued year after year a tax structure that practically every student knows is seriously defective. It is high time to

carry out a thorough-going tax reform—a reform that, among other things, will serve to improve the economic climate for enterprise and investment at large . . .

Of the many reforms that are needed, I think two are especially important. First, the tax rules governing depreciation need to be amended, so that they will take realistic account both of our technological revolution and of inflation. Second, the tax rates on personal income, which for some brackets of income are nearly confiscatory, need to be generally and gradually reduced, so that personal incentives to great effort will be strengthened and the energy now expended on tax avoidance schemes may be turned back into productive channels.

Improved Education and Training. We need to enlarge the national effort devoted to scientific research and basic education, but I feel that we need also to become far more efficient than we have been in conducting our educational enterprises.

We need to hasten adaptation to changing technology by undertaking extensive training programs for unskilled workers in our individual communities, as well as retraining programs for industrial workers whose skills have become obsolete. It also would be constructive to stimulate the smaller firms, which are counted in the millions, to practice greater efficiency.

Elimination of Wasteful Practices. We need to become less tolerant of the wasteful practices that we have allowed to develop all around us. I am referring not only to restraints on efficiency imposed by trade unions in railroading, construction work, and other industries, but also to the featherbedding not infrequently practiced by business executives, and to the roadblocks to efficiency that have been put up by our government, of which the farm program is only the most notorious example.

Economic Stability. Since economic growth is bound to proceed unevenly, we must try to stiffen the resistance of our economy to occasional setbacks . . .

Before the next recession strikes, as in time it probably will, our country should at least be armed with an unemployment insurance system that covers practically all wage-earners and automatically provides for extended benefits during periods of abnormally large unemployment.

Under present conditions of world competition, a reasonably

stable price level would also help to promote the long-term growth of our economy. It would therefore be desirable to amend the Employment Act by specifying that it is the continuing policy of the Federal Government to promote reasonable stability of the consumer price level as well as maximum production and employment. Such a declaration of moral purpose would help to assure everyone, both in our country and abroad, that our government has a proper concern for the future as well as the present.[14]

The program outlined by Dr. Burns covers broad areas—tax reform, elimination of wasteful practices, education and training, a search for stability. Controversy sometimes arises over the best methods for achieving these and similar goals. But what we call "the American Way of Life" rests on the belief that we as free individuals in a system of private enterprise and democratic government will recognize our problems and will act to solve them.

The first step in grappling with our problems is to understand them. Unless we understand our economic system, we won't know whether apparent defects are those of the system or weaknesses in ourselves.

Meeting the Economic Challenge

THIS PAMPHLET HAS emphasized some of the problems we face.

We need to keep these problems in perspective.

They are small compared to the material and spiritual advantages we enjoy.

They are small compared to the problems that confront people living under Communism.

Most important, we, as a free people, can work together in solving them.

We can be proud of our past, even if it has not been perfect.

We can look forward to the future with confidence.

Khrushchev must still talk in terms of "catching up" with this Nation that was built by free men.

Free men through voluntary effort can meet his economic challenge.

NOTES

1. *U. S. News and World Report,* Washington, D. C., July 17, 1961, p. 41.
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3. *Ibid.* p. 133.
4. "Population and the Labor Force", John F. Kantner, *Comparisons of the United States and Soviet Economies.* Joint Economic Committee, United States Congress. p. 34.
5. "The Outlook for the Soviet Consumer", William N. Turpin, *Problems of Communism.* United States Information Agency, Washington, D. C. November-December, 1960. p. 35.
6. "Inflation: Its Cause and Cure", Beryl W. Sprinkel, *The Annals of the American Academy of Political and Social Science.* Philadelphia, Pa., November, 1959. p. 132.
7. *Through Soviet Windows,* Joseph E. Evans, Dow Jones and Company, Inc. New York. 1957. p. 87.
8. "The Soviet System—How It Operates", Dr. Floyd A. Bond. *U. S. News and World Report,* November 7, 1960. p. 100.
9. *Through Soviet Windows,* Joseph E. Evans, Dow Jones and Company, Inc. New York. 1957. p. 97.
10. "The Real Productivity of Soviet Russia", Colin Clark. *Committee on the Judiciary.* United States Senate, U. S. Government Printing Office, 1961. p. 2.
11. *Staff Report on Employment, Growth, and Price Levels.* Joint Economic Committee, Congress of the United States, 1959. p. 45.
12. "The Individual", Henry M. Wriston. *Goals for Americans.* The American Assembly, Prentice-Hall, Inc., New York, 1960. p. 57.
13. *Staff Report on Employment, Growth, and Price Levels.* Joint Economic Committee, Congress of the United States, 1959. p. 50.
14. "A Second Look at the Council's Economic Theory", Dr. Arthur F. Burns. *The Morgan Guaranty Survey,* New York. August 1961. p. 11-12.

Suggested Reading

CHANDLER, L. V., *Introduction to Monetary Theory*, Harper & Brothers, New York. 1953, $2.00. A good beginning summary of the analytical approaches to the relationships among money, prices, incomes and employment.

ROSTOW, WALT W., *The Stages of Economic Growth*, Cambridge University Press, New York. 1961, $1.45. Traces the successive stages of growth through which a nation moves in its economic advancement. The economies of the United States and the Soviet Union are compared extensively.

United States Chamber of Commerce, *Automation and Unemployment*, Washington, D. C $.50. An analysis of several types of unemployment with key emphasis on unemployment due to structural changes: shifts in consumer demand, changes in methods and techniques, and labor displacement. Remedies are analyzed.

United States Chamber of Commerce, *Can We Depression-Proof Our Economy?*, Washington, D. C. $.50. A discussion of how private and business policies can help fortify us against serious contractions in our economy.

United States Chamber of Commerce, *Investment for Jobs*, Washington, D. C. $.50. With the growth in the labor force new job-making investment is of continuous importance. This report discloses a new survey on postwar investment per job. It outlines the handicaps and obstacles to investment.

United States Chamber of Commerce, *Meeting Foreign Competition—At Home and Abroad*, Washington, D. C. 1961, $1.00. Proceedings of the First 1961 Economic Institute. Authoritative speeches and answers on what business and government can do to meet foreign competition.

United States Chamber of Commerce, *The Mechanics of Inflation*, Washington, D. C. $1.00. An analysis of cost and demand pressures on the price level. A painstaking analysis of the inflation process, providing both a background and insight necessary for an understanding of how different forces work in the economy in concert in an inflationary situation.

United States Chamber of Commerce, *The Promise of Economic Growth*, Washington, D. C. $1.00. Analysis of different meanings of growth, requirements for growth, and the costs and disruptive effects as well as the gains.

PROGRESS THROUGH VOLUNTARY
ACTION AND FREEDOM

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